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SUBJECT: UKRAINE: RINAT AKHMETOV BUYS U.S. COAL COMPANY

¶1. (SBU) Metinvest, Ukrainian oligarch Rinat Akhmetov's metallurgical company, confirmed local media reports that it has purchased West Virginia based United Coal. Metinvest will announce the purchase later on April 30 in the U.S., Jock Mendoza-Wilson, investor relations chief of Akhmetov's SCM Holding, told us. Mendoza-Wilson said Metinvest would not disclose the sales price, which Ukrainian media reports put at roughly \$1 to \$1.4 billion.

¶2. (SBU) Mendoza-Wilson said the transaction, which had been announced previously and received U.S. regulatory permission, would make Metinvest 100 percent self-sufficient in coking coal. The lack of metallurgical coal resources had placed the company at a disadvantage to other, vertically integrated eastern European steel producers, Mendoza-Wilson told us. Direct access to coal would help the company in times of volatile prices, tight liquidity or shortages of adequate coal supplies on the world market, he added.

¶3. (SBU) The planned purchase had not been deterred by the world financial crisis and the severe drop in Ukrainian steel output, which, Mendoza-Wilson conceded, had hit Metinvest hard. He indicated that the crisis did put downward pressure on the purchase price. Metinvest paid outright for the purchase, he said, through a mixture of company cash and borrowings, which he said the company was able to acquire on account of agreements with banks dating from before the economic crisis began.

¶4. (SBU) Mendoza-Wilson also said that the purchase was part of a strategic decision by Akhmetov's SCM group to establish a significant presence in the U.S. market. SCM hopes to leverage the purchase to increase its name recognition in the U.S., and to access more U.S. sources of financing for future expansion. He also said that the acquisition of a U.S. based mining company also made sense from a narrower commercial perspective. Although coal is cheaper elsewhere, United Coal, with operations in Kentucky, West Virginia and Virginia, was among the world's most efficient mining companies. SCM also wanted to invest in an environment with high corporate governance standards. He mentioned in particular sanctity of contract, clear title and ownership rights, and strict health and safety rules for the mines as factors that made the acquisition of a U.S. coal mining company particularly attractive for SCM.

TAYLOR